



APPRAISAL OF REAL PROPERTY

The Delta Wetlands Project

Holland Tract, Webb Tract, Bouldin Island,
Bacon Island, and Chipps Island

Sacramento - San Joaquin River Delta, San
Joaquin, Contra Costa, and Solano County, CA

IN A SELF-CONTAINED APPRAISAL REPORT

As of December 31, 2010

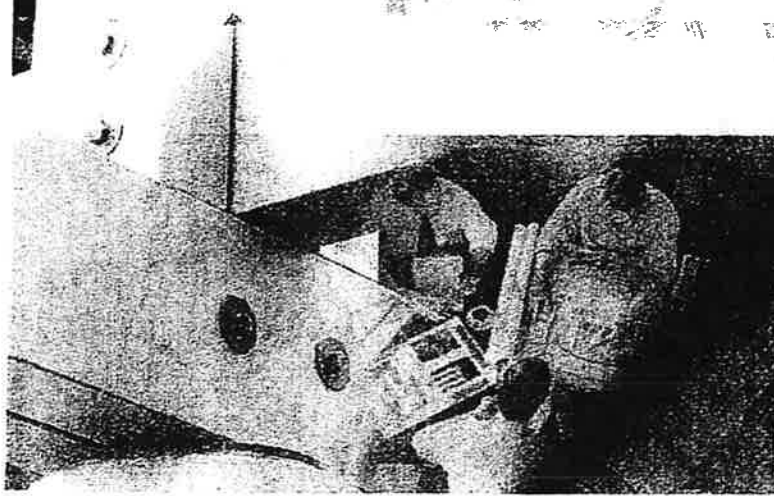
Prepared For:

Zurich Alternative Asset Management

105 East 17th Street

New York, NY 10003

Prepared By:



Photograph of Subject Property

Cushman & Wakefield Western, Inc.

Valuation & Advisory

4435 Eastgate Mall, Suite 200

San Diego, CA 92121

C&W File ID: 10-38503-9350



As a matter of environmental responsibility, C&W has adopted a corporate-wide program to print our appraisal reports double-sided.

RRGWDS1269



CUSHMAN & WAKEFIELD WESTERN, INC.
4435 EASTGATE MALL, SUITE 200
SAN DIEGO, CA 92121

December 31, 2010

Mr. George Childs
General Counsel
Zurich Alternative Asset Management
105 East 17th Street
New York, NY 10003

Re: Appraisal of Real Property
In a Self-Contained Report

The Delta Wetlands Project

Holland Tract, Webb Tract, Bouldin Island, Bacon Island, and Chipps Island
Sacramento - San Joaquin River Delta, San Joaquin, Contra Costa, and Solano County, CA

C&W File ID: 10-38503-9350

Dear Mr. Childs:

In fulfillment of our agreement as outlined in the Letter of Engagement, we are pleased to transmit our appraisal of the above property in a self-contained report dated December 31, 2010. The effective date of value is December 31, 2010.

This appraisal report has been prepared in accordance with our interpretation of your institution's guidelines, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and the *Uniform Standards of Professional Appraisal Practice* (USPAP).

The subject consists of 20,414.16 acres of land comprising three entire islands and portions of two other islands located in the Sacramento - San Joaquin River Delta. It is known as the Delta Wetlands Project ("Project"), and the owner plans to convert two islands (Webb Tract and Bacon Island - "Reservoir Islands") into storage reservoirs for water, which will then be distributed into the California State Water Project (SWP). The remaining three properties will be used to mitigate the environmental impacts that result from converting the Reservoir Islands. With the exception of the property on Chipps Island, all of the subject islands are currently dedicated to agricultural uses. In mitigating the Project impacts, Bouldin Island and the Holland Tract will continue to have some agricultural uses with sensitive habitat areas ("Habitat Islands"), while Chipps Island will serve only as undisturbed habitat ("Mitigation Land"). Together, the Reservoir Islands and Habitat Islands are termed the "Project Islands." A more in-depth project description is available in the Addenda.

MARKET VALUE AS IS (PROJECT ISLANDS)

Based on the agreed to Scope of Work, and as outlined in the report, we developed an opinion that the Market Value of the Fee Simple estate of the Project Islands, totaling 20,171.16 acres, subject to the assumptions and

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limiting conditions, certifications, and extraordinary assumptions, if any, and definitions, "As-Is" on December 31, 2010, was:

NINETY TWO MILLION SIX HUNDRED THOUSAND DOLLARS

\$92,600,000

MARKET VALUE AS IS (MITIGATION LAND)

Based on the agreed to Scope of Work, and as outlined in the report, we developed an opinion that the Market Value of the fee simple estate of the 243.00 acre Mitigation Land component, subject to the assumptions and limiting conditions, certifications, and extraordinary assumptions, if any, and definitions, "As-Is" on December 31, 2010, was:

THREE HUNDRED SIXTY FIVE THOUSAND DOLLARS

\$365,000

VALUE OF WATER RIGHTS AS THOUGH PROJECT IS COMPLETE

Based on the agreed to Scope of Work, and as outlined in the report, we developed an opinion of the Hypothetical Market Value of the subject's excess water rights for export. This value is hypothetical in that it assumes that, at the date of value, the Project was complete with 150,000 AF of water available for export. In fact, at the date of value, the owner anticipated that it could take about five years to complete the Project. The Project will be considered "complete" when all approvals are in place and all capital expenditures have been incurred (owner estimates this cost at \$300,000,000, excluding pipes), resulting in a project can store and physically deliver water to buyers via typical and appropriate infrastructure. Accordingly, we have determined that the Hypothetical Market Value of the subject's excess water rights for export, subject to the assumptions and limiting conditions, certifications, and extraordinary assumptions, if any, and definitions, "As Though The Project is Complete," on December 31, 2010, was:

Seven Hundred Fifty Million Dollars

\$750,000,000

The value opinions in this report are qualified by certain assumptions, limiting conditions, certifications, and definitions. We particularly call your attention to the extraordinary assumptions and hypothetical conditions listed below.

EXTRAORDINARY ASSUMPTIONS

For a definition of Extraordinary Assumptions please see the Glossary of Terms & Definitions.

Significant project information was conveyed to us by the client and/or the subject owner, and for the purpose of this analysis, this information is termed "provided information." This analysis employs the following Extraordinary Assumptions:

- According to provided information, the Project requires that the Habitat Islands be used to mitigate impacts resulting from converting the Reservoir Islands. Chipps Island was also reportedly acquired for this purpose. Our analysis assumes that these measures will adequately mitigate Project impacts and

that no further mitigation lands will need to be acquired for this purpose. Further, it is assumed that any provided mitigation costs are accurate.

- We assume that, unless otherwise specified, all mineral rights are intact, and that any loss of mineral rights does not significantly impact the subject's value.
- Provided information describes important subject details such as acreages, assessor parcel numbers, property taxes amounts, storage capacities, etc. Where possible and practical, we have checked or spot-checked this information; however, as we have not independently verified all such data, we assume that the data provided is accurate and reasonable to rely upon. If any provided information used as a key input to our valuation is found to be incorrect, it could greatly alter our conclusions, and we reserve the right to amend our analysis accordingly.
- We have assumed that any provided proformas and budgets are reasonable and accurate. It is noted that some of the provided documents were quite preliminary in nature.
- The subject's current agricultural use involves chemicals, oils, fuels, and other potentially hazardous substances. We have assumed that no contamination exists that would require mediation or that could hinder the proposed project.

HYPOTHETICAL CONDITIONS

For a definition of Hypothetical Conditions please see the Glossary of Terms & Definitions.

The subject is appraised under the following hypothetically as follows:

- The subject Project currently requires significant capital expenditures in order to be able to store and export water as intended by the Delta Wetlands Project. The owner estimates that the Project will take about five years and about \$300,000,000 of capital expenditures (excluding pipes) to reach completion. Our valuation of the water that will be available for export is Hypothetical in that it assumes the Project was complete at the date of value. A complete Project would need to have all approvals in place and all capital improvements made. When complete, the Project is assumed to be able to store water and physically deliver it to end users through typical and appropriate water conveyance infrastructure.

This letter is invalid as an opinion of value if detached from the report, which contains the text, exhibits, and Addenda.

Respectfully submitted,

CUSHMAN & WAKEFIELD WESTERN, INC.



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Appraiser
CA Certified General Appraiser
License No. AG041962
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858-558-5629 Office Direct
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CLIENT SATISFACTION SURVEY

As part of our new quality monitoring campaign, attached is a short survey pertaining to this appraisal report and the service that you received. Would you please take a few minutes to complete the survey to help us identify the things you liked and did not like?

Each of your responses will be catalogued and reviewed by members of our national Quality Control Committee, and appropriate actions will be taken where necessary. Your feedback is critical to our effort to continuously improve our service to you, and is sincerely appreciated.

To access the questionnaire, please click on the link here:

<http://www.surveymonkey.com/s.aspx?sm=2bZUxc1p1j1DWi6n2fsw1KQ3d3d&c=10-38503-9350>

The survey is hosted by Surveymonkey.com, an experienced survey software provider. Alternatively, simply print out the survey attached in the Addenda of this report and fax it to (716) 852-0890.

GENERAL DESCRIPTION

The following table summarizes the subject information discussed in greater detail throughout our analysis.

BASIC INFORMATION			
Common Property Name:	The Delta Wetlands Project	Report Type:	Self-Contained
Address:	Holland Tract, Webb Tract, Bouldin Island, Bacon Island, and Chipps Island	Interest Appraised:	Fee Simple
City:	Sacramento - San Joaquin River Delta	Date of Value:	12/31/10
State:	CA	Date of Inspection:	11/17/2010 and 11/18/2010
Zip Code:	94561	Date of Report:	12/31/10
County:	San Joaquin, Contra Costa, and Solano	Prospective Date of Completion:	12/31/14
Property Ownership Entity:	Delta Wetland Properties	Prospective Date of Stabilization:	NA
CW File Reference:	10-38503-9350		
SITE INFORMATION			
Land Area Acres:	20,171.16	Site Utility:	Average
Is there additional Excess Land?	Yes	Site Topography:	Generally level, below sea level
Excess Land Area Acres:	243.00	Site Shape:	Irregularly shaped
Total Land Area Acres:	20,414.16	Frontage:	Good
Flood Zone:	AE	Access:	Fair to average to good
Flood Map Number:	06013C0200F, 06077C0410F, 06077C0260F, 06013C0200F, 06095C0700E	Visibility:	Average
Flood Map Date:	6/16/09, 10/16/09, 5/4/09	Location Rating:	Good
MUNICIPAL INFORMATION			
Assessing Authority:	San Joaquin, Contra Costa, and Solano Counties	Municipality Governing Zoning:	San Joaquin, Contra Costa, and Solano Counties
Assessor's Parcel Identification:	See Site Description section.	Current Zoning:	AG-40, AG-80, A-2, A-3, A-4, MP
Current Tax Year:	2010/2011	Is current use permitted:	Yes
Taxable Assessment:	\$42,833,098	Current Use Compliance:	Complying use
Current Tax Liability:	\$614,137	Zoning Change Applied For:	Not to our knowledge
Are taxes current?	Taxes are current	Zoning Variance Applied For:	Not to our knowledge
Is a grievance underway?	Not to our knowledge		
Subject's assessment is:	Below market level		
HIGHEST & BEST USE			
As Though Vacant:	Continued development of the proposed Project for water storage and distribution with interim agricultural use (Reservoir Islands) and long-term agriculture (Habitat Islands) with accompanying habitat preservation		
As Improved:	Not applicable		

VALUATION INDICES		Market Value
LAND VALUATION		
As Is Land Value		12/31/2010
Indicated Value:		\$92,600,000
Per Acre:		\$4,591
MITIGATION LAND VALUATION		
As Is Land Value		12/31/2010
Indicated Value:		\$365,000
Per Acre:		\$1,502
WATER VALUATION		
Hypothetical Value As Though Project Is Complete		12/31/2010
Hypothetical Value for Permanent Sale of Water:		\$750,000,000
Per Acre Foot:		\$5,000
Hypothetical Potential Gross Annual Lease Income:		\$52,500,000
Per Acre Foot Per Year:		\$350
EXPOSURE TIME		
Based on As Is Scenario		
Exposure Time (months):		12 to 60
Marketing Time (months):		12 to 60

EXTRAORDINARY ASSUMPTIONS

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Significant project information was conveyed to us by the client and/or the subject owner, and for the purpose of this analysis, this information is termed "provided information." This analysis employs the following Extraordinary Assumptions:

- According to provided information, the Project requires that the Habitat Islands be used to mitigate impacts resulting from converting the Reservoir Islands. Chipps Island was also reportedly acquired for this purpose. Our analysis assumes that these measures will adequately mitigate Project impacts and that no further mitigation lands will need to be acquired for this purpose. Further, it is assumed that any provided mitigation costs are accurate.
- We assume that, unless otherwise specified, all mineral rights are intact, and that any loss of mineral rights does not significantly impact the subject's value.
- Provided information describes important subject details such as acreages, assessor parcel numbers, property taxes amounts, storage capacities, etc. Where possible and practical, we have checked or spot-checked this information; however, as we have not independently verified all such data, we assume that the data provided is accurate and reasonable to rely upon. If any provided information used as a key input to our valuation is found to be incorrect, it could greatly alter our conclusions, and we reserve the right to amend our analysis accordingly.

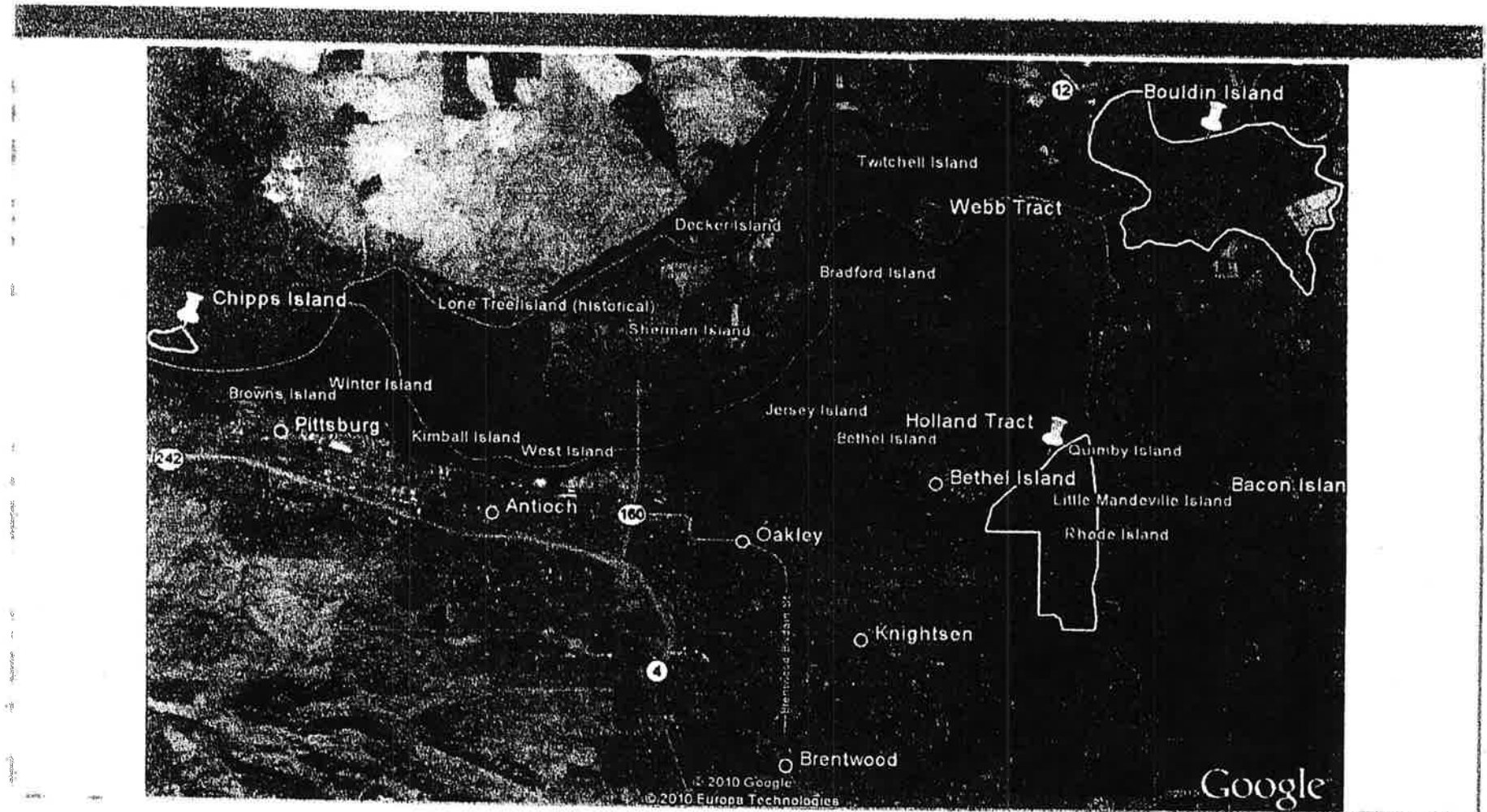
- We have assumed that any provided proformas and budgets are reasonable and accurate. It is noted that some of the provided documents were quite preliminary in nature.
- The subject's current agricultural use involves chemicals, oils, fuels, and other potentially hazardous substances. We have assumed that no contamination exists that would require mediation or that could hinder the proposed project.

HYPOTHETICAL CONDITIONS

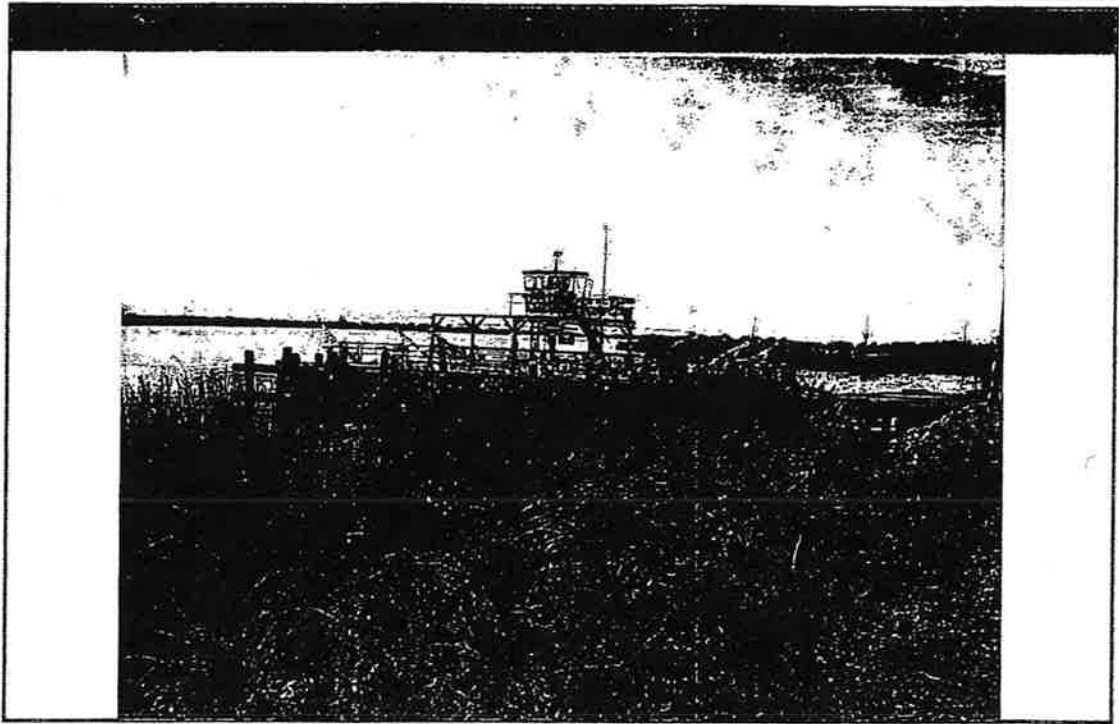
For a definition of Hypothetical Conditions please see the Glossary of Terms & Definitions.

The subject is appraised under the following hypothetically as follows:

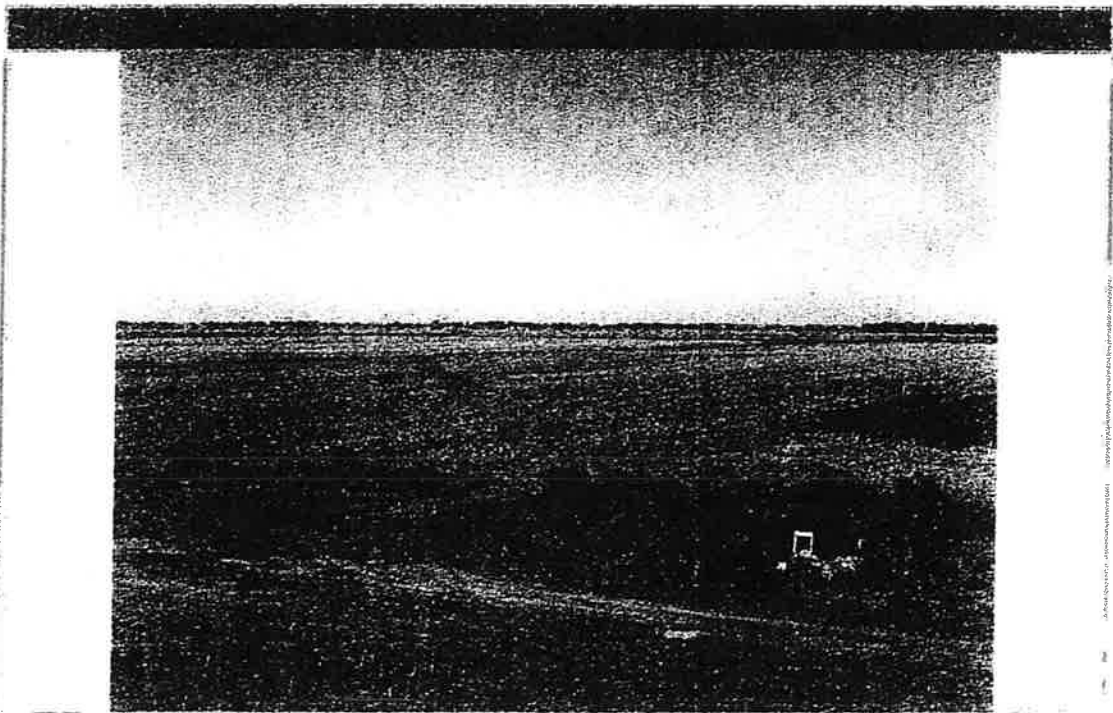
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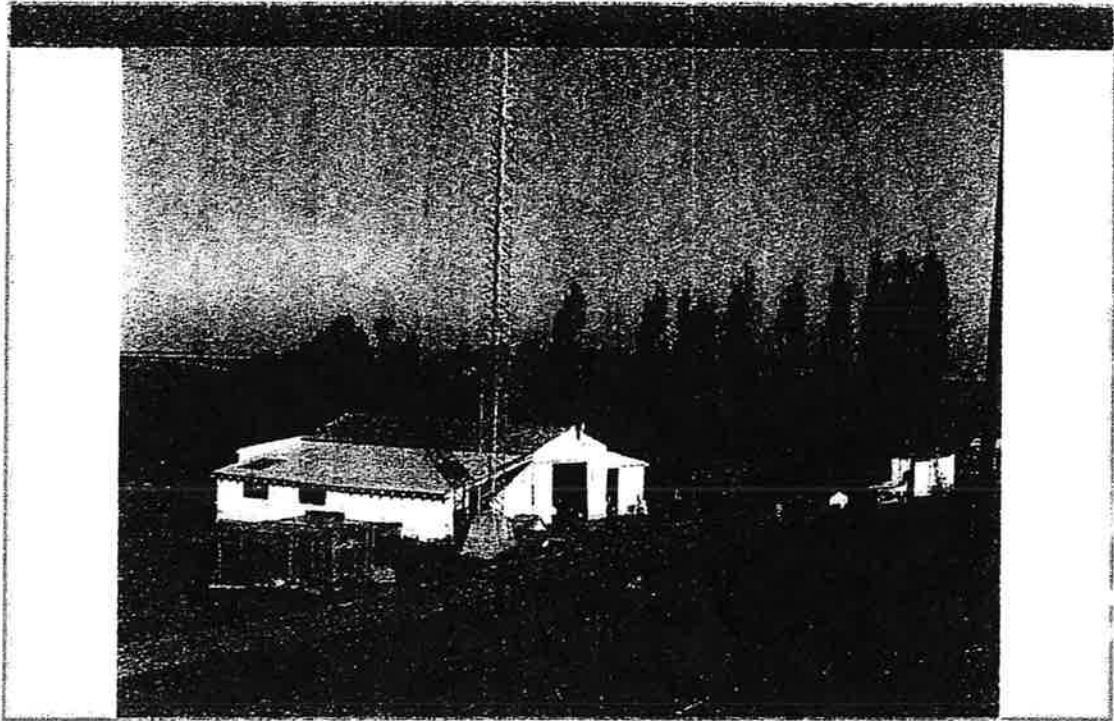
Highlighted subject boundaries approximated.



Webb Tract – ferry dock providing access onto island



Webb Tract – harvested corn area



Webb Tract – typical barn improvements



Webb Tract – owner's house and recreational quarters



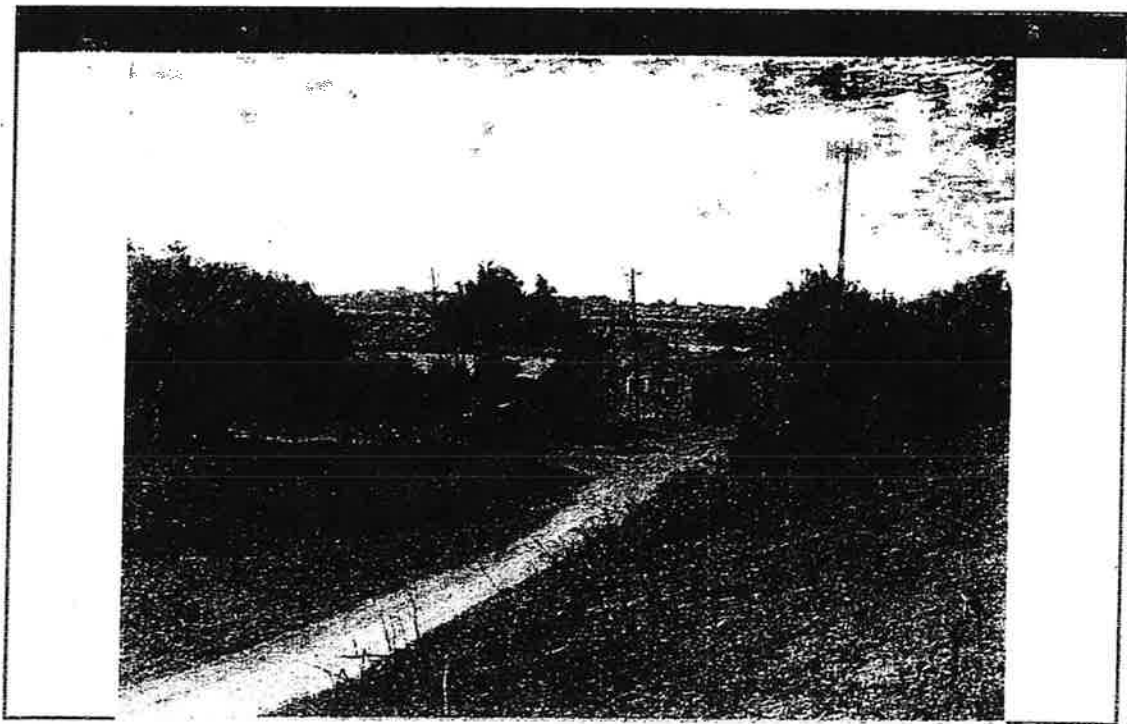
Webb Tract – typical levee along slough



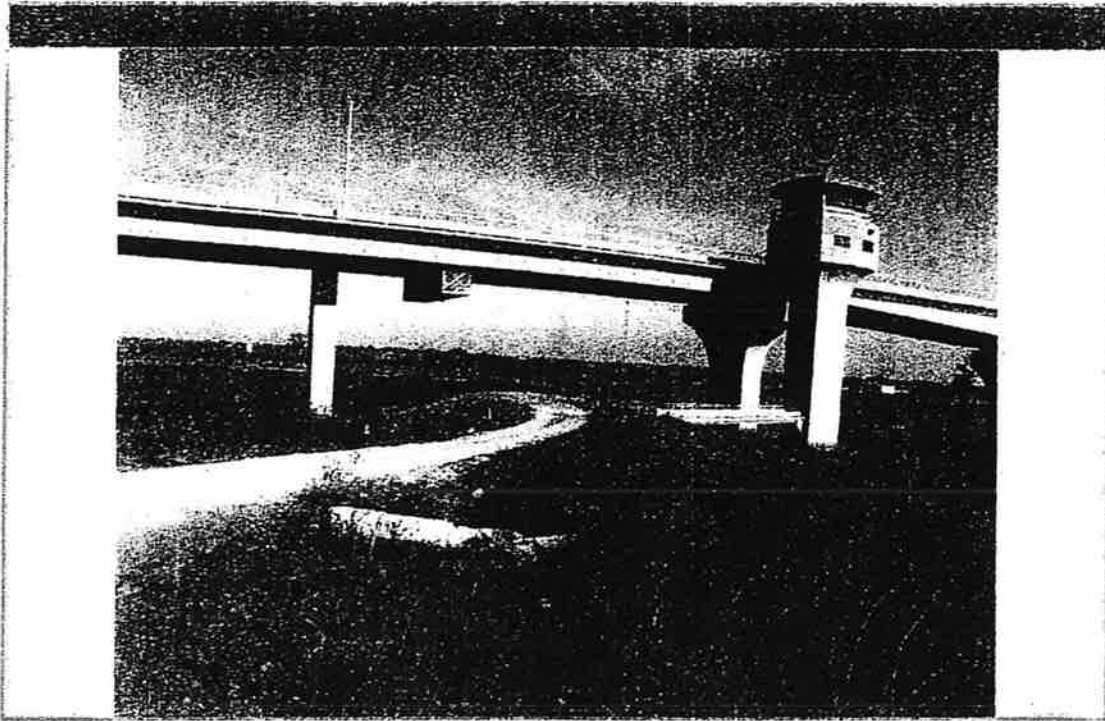
Webb Tract – typical interior view of levee showing subsidence of island interior, which is apparent when comparing the elevation of the two dirt roads



Bouldin Island – agricultural area of interior and levee road



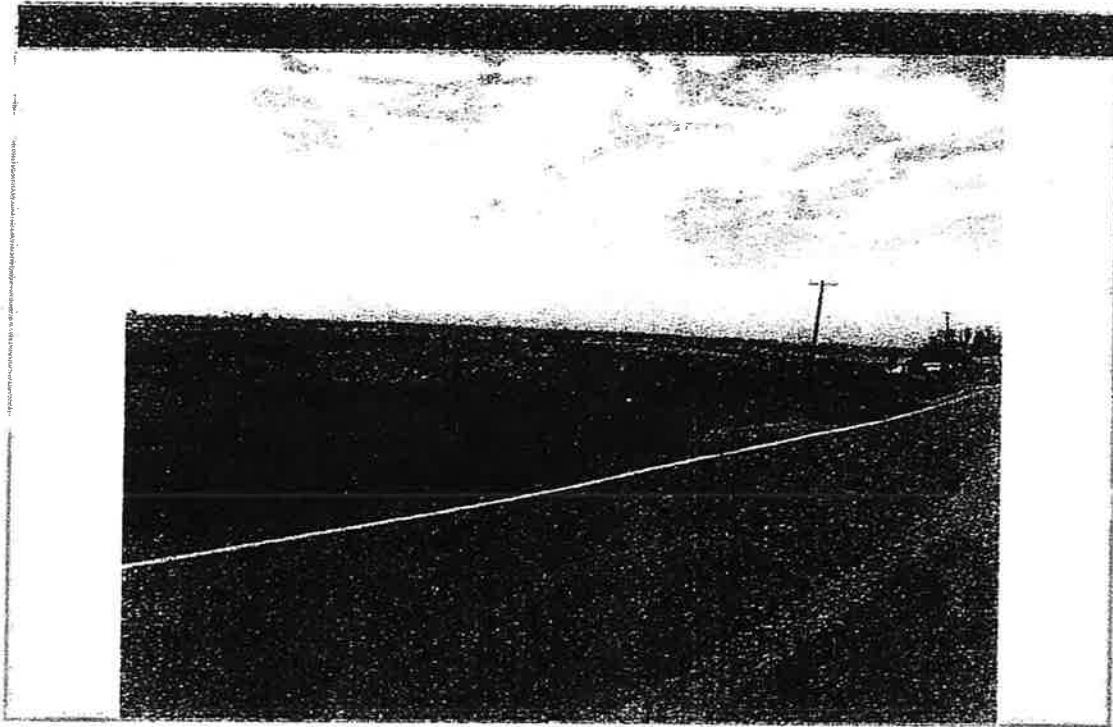
Bouldin Island – labor housing and cell tower



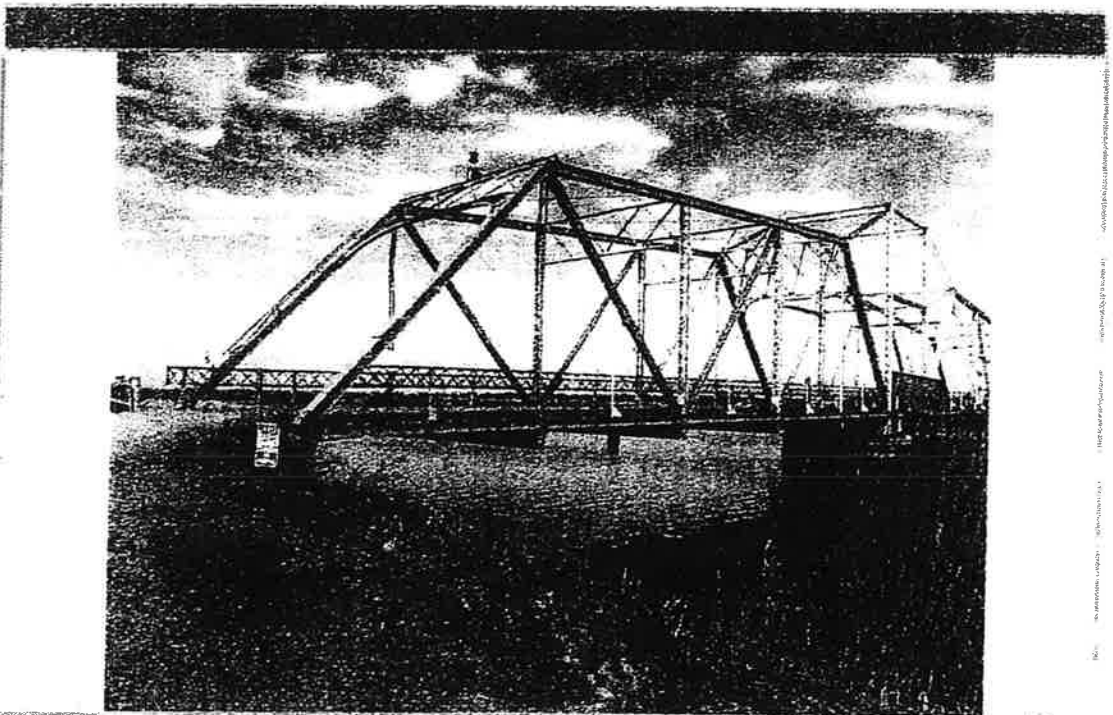
Bouldin Island - Kettleman Lane / State Route 12 bridge onto island at east end



Bacon Island – bridge providing access to island

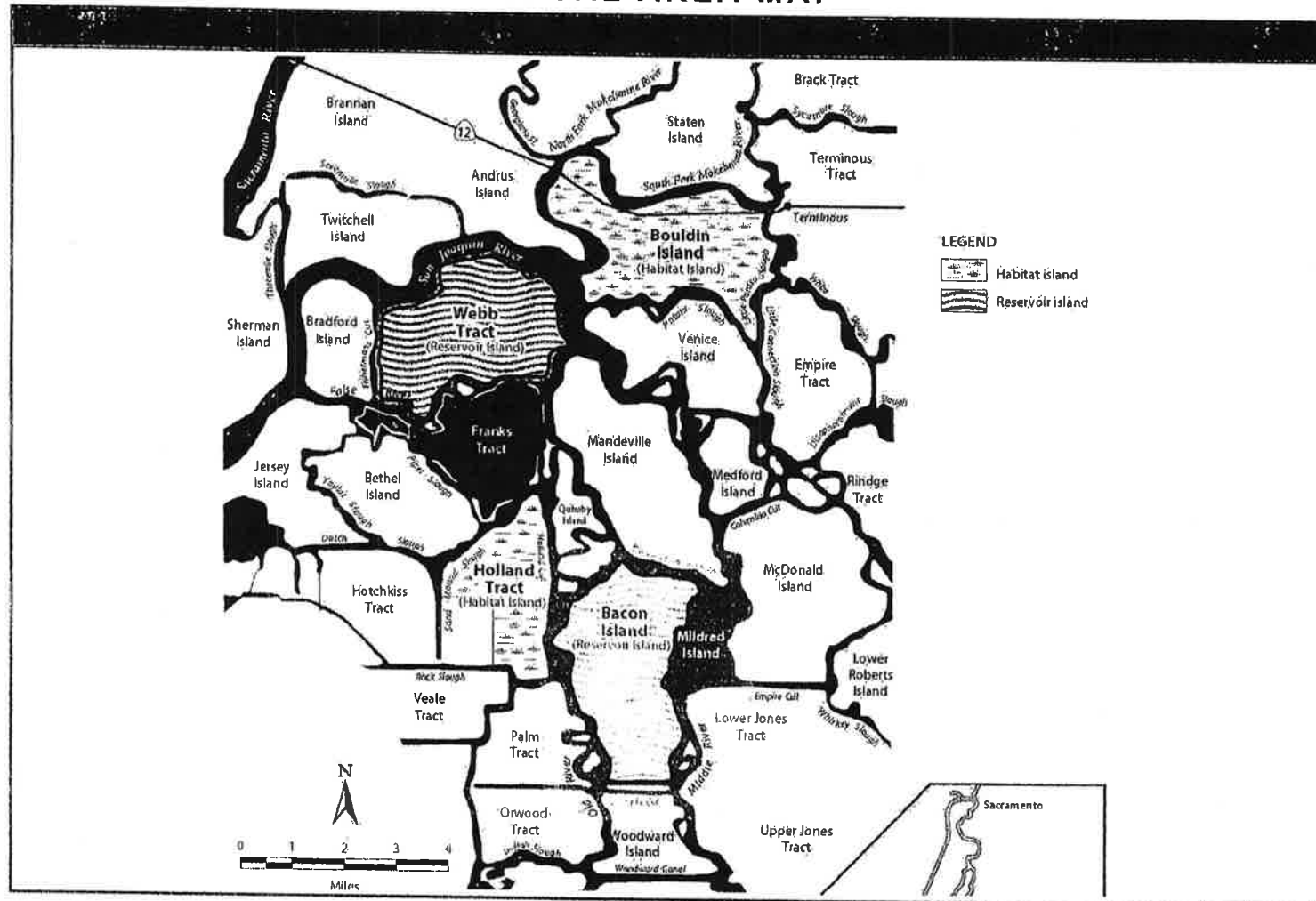


Bacon Island – agricultural interior area and paved levee road



Bacon Island – bridge providing access to the north to Mandeville Island

LOCAL AREA MAP



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RENEWABLE ENERGY ANALYSIS

THE ENERGY CRISIS OF THE 2000s

From the mid-1980s to September 2003, the inflation-adjusted price of a barrel of crude oil on NYMEX was generally under \$25/barrel. During 2003, the price rose above \$30, reached \$60 by August 11, 2005, and peaked at \$147.30 in July 2008. Commentators attributed these price increases to many factors, including reports from the United States Department of Energy (DOE) and others showing a decline in petroleum reserves, worries over peak oil, Middle East tension, and oil price speculation.

For a time, geo-political events and natural disasters indirectly related to the global oil market had strong short-term effects on oil prices, such as North Korean missile tests, the 2006 conflict between Israel and Lebanon, worries over Iranian nuclear plans in 2006, Hurricane Katrina, and various other factors. By 2008, such pressures appeared to have an insignificant impact on oil prices given the onset of the global recession. The recession caused demand for energy to shrink in late 2008, with oil prices falling from the July 2008 high of \$147 to a December 2008 low of \$32. Oil prices stabilized by October 2009 and established a trading range between \$60 and \$80.³

The impact of this crisis was severe and felt by all Americans. While most automobile users had to dramatically increase their fuel spending, everyone – regardless of whether or not they drive – felt the economic impact of increased transportation costs for items such as food being passed on to consumers. In 2006 the average miles driven by Americans began declining, and 2008 was the first year that U.S. gasoline usage had fallen in 17 years.

As a result of this crisis, much attention was turned to America's high fuel consumption and reliance on foreign oil. Demand for hybrid vehicles and smaller cars with better fuel economy increased dramatically, particularly as it was encouraged by government tax credits and other programs. More importantly, the development of renewable energy sources and technologies became a focus of both private sector and government investment, particularly solar and wind power. Additionally, the U.S. has also gotten very close to adopting a market for the trade of carbon credits similar to that found in the European Union (EU).

SOLAR POWER GENERATION⁴

OVERVIEW

The solar power generation industry is focused on converting electricity from the sun, using either solar collectors (arrays of mirrors, which account for about 20% of industry revenues) or photovoltaic panels (80% of revenues). Most solar power is generated by independent power producers that sell electricity into the wholesale market, rather than distributing it through their own retail network. The industry has experienced healthy growth over the past five years, a trend that is expected to continue through the next five.

CURRENT PERFORMANCE AND OUTLOOK

Solar power production is expanding impressively, though from a low base. Installed solar capacity grew strongly in 2009, increasing by 441 megawatts. Further addition of another 460 megawatts of capacity is expected for 2010. The final output of 2010 is forecast to be 848 million kilowatt hours, up from 550 kilowatt hours in 2005; however, despite this, solar electricity accounts for only a small portion of total U.S. electricity output – about 0.02%.

³ http://en.wikipedia.org/wiki/2000s_energy_crisis

⁴ Certain information sourced from September 2010 IBISWorld Industry Report on Solar Power Generation in the US

Industry revenues of about \$58.0 million are expected in 2010, indicating a healthy average annual growth rate of about 4.7%, from 2005 revenues of \$45.4 million. Industry growth is expected to maintain nearly the same average annual growth rate (4.8%) through 2015.

Solar industry expansion is the result the continued interest in renewable power generation, higher levels of electricity generation, and higher prices. The increase in capacity is largely due to state government requirements in more than 30 states, mandating targets for the output of electricity from renewable sources, as well as incentives for renewable energy available under the American Recovery and Reinvestment Act of 2009.

Though capacity and revenues have experienced favorable growth trends, net profit is expected to grow more slowly because of relatively high material and equipment costs. However, operational efficiency is rising and maintenance costs appear to be easing, implying that there may be some future upside for profit growth. The 2010 net industry profit is expected to be around \$7.62 million, which represents a negligible share of total U.S. GDP.

Historically, the relatively high cost associated with solar power and its dependence on weather conditions has limited its use in America. Recently the industry has improved its technology and has experienced strong growth that is expected to continue in the near-term. Despite this, solar energy production is expected to remain only a small component of the U.S. power supply going forward.

LOCATIONAL CONSIDERATIONS

Differences in cloud cover, latitude and weather conditions result in considerable variations in sunlight available for solar power generation. As expected, the West and Rocky Mountain areas have the most sunlight, so it follows that this region has accounts for over 75% of the U.S. solar power supply. California alone accounts for about 67% of that production.

Solar power stations are typically land-intensive, requiring large, flat areas with good exposure to sunlight. While a conducive site is obviously beneficial for solar uses, equally important is the distance to local power grids and the ability for to tie-in to those grids. Generally, solar developments tend to be located in relatively remote areas, and local and regional transmission lines often need to be constructed in order to bring solar power to market.

SOLAR ENERGY PRODUCTION POTENTIAL OF THE SUBJECT

Based on our preliminary research, the subject appears to have an average amount of sunlight available for solar power production. According to maps from the National Renewable Energy Laboratory (NREL), the Project Islands have average annual Direct Normal Irradiation (DNI) in the range of 5,200 to 5,300 kWh/sq.m/day. As expected, available sunlight peaks in July (about 8,000 DNI) and is at its lowest level in January (about 1,900 DNI). While this large seasonal fluctuation is not ideal, the annual average could still be attractive to potential solar developers.

Companies undertaking developments that use the most efficient solar technologies typically only consider sites with DNI of around 7,000, though they may consider going as low 6,500 DNI if the land is priced attractively. As such, it is likely that solar electricity producers would only consider the subject property for projects with less expensive and less efficient panels.

Without more advanced studies, it is difficult to conclude as the subject's solar power generation potential. However, the Project Islands have the following features that could undermine the feasibility of solar developments:

- Most important is the distance to the power grid. Based on rough maps obtained from the California Energy Commission, it appears that none of the subject islands are located in convenient proximity to

major transmission lines or substations. While it may only be a few miles to these resources, there are significant costs associated with tying into the grid. For example, in dry, rural areas, solar developers estimate costs from \$500,000 to \$1 million per mile of tie-in line. These tie-in costs could be much higher in the Delta, where navigating around the many waterways could result greatly increased costs. Also, if the development would have to tie into a substation rather than transmission lines, there would be additional mileage to factor in. If no substations are nearby and it is necessary to tie into existing transmission lines, constructing a substation with transformers could be necessary to transmit any power generated into the grid. Further it is not known if the local grid has the capacity for utility-grade solar development.

- Another issue of potential concern for solar developers could be soil subsidence. Several market participants have indicated that, depending on the crop grown and farming techniques, Delta agricultural land generally needs to be re-leveled every four or five years. To be as efficient as possible, solar developments require level, stable sites; thus, the prospect of developing on soils that tend to subside (and need to be re-leveled) is less compelling because gradually shifting panel angles can reduce energy production and increase maintenance costs.

Although there is a possibility that the subject site could be used for a financially feasible, utility-grade solar power generation project, based on the above factors, our preliminary conclusion is that this is unlikely to result in the highest return to the property. Without further studies specific to the subject property, it is impossible to know what the costs associated with such a development would be. However, we anticipate that the subject would have relatively high development costs, and developers would compensate by paying a lower price for the land. Based on an average level of available sunlight, it is likely that the property's value as a solar development site would be lower than its As Is value.

WIND POWER GENERATION⁵

OVERVIEW

The wind power industry has benefitted from the recent green energy movement even more greatly than the solar power industry. As with solar-generated electricity, wind power is mostly produced by independent operators who sell power to downstream customers; however, some utility companies are also wind energy producers. The wind power industry has enjoyed substantial growth over past five years. While further growth is expected in the near-term, wind-generated electricity providers are also subject to very high revenue volatility, and it is possible that the average growth could be much greater or lower than forecast.

CURRENT PERFORMANCE AND OUTLOOK

Favorable government assistance has made this energy source cost competitive with other sources of electricity generation. The federal government's production tax credit, coupled with state government renewable energy mandates, made it attractive for industry players to construct wind farms at a breakneck speed. These incentives lowered the cost of wind power generation and mandated that certain downstream buyers purchase renewable energy.

For the five years from 2005 to 2010, wind power output expanded by an average of 36.5% per year, lifting its share of the total amount of electricity generated in the United States from 0.4% in 2005 to about 2.0% in 2010. Over this same five year period, industry revenue grew by an average annual rate of 22.0% (to \$3.3 billion). Continued revenue growth is expected at around 11.5% through 2015, increasing to \$5.8 billion.

⁵ Certain information sourced from December 2010 IBISWorld Industry Report on Wind Power Generation in the US

Although the general market for electricity is relatively stable with moderate revenue growth, the wind generating segment is expanding strongly. Favorable government incentives are significantly fueling growth. However, since certain government incentives expire and only provide a subsidy for a specified amount of time, revenue fluctuations can occur as a result. Additionally, firms face underutilized capacity if demand suddenly falls, and constrained capacity if it rises quickly.

As an illustration of the industry's volatility, during the summer of 2010, the Bureau of Land Management (BLM) indefinitely suspended the issuance of wind permits on public lands, in turn stalling billions of dollars of wind farm developments. This has halted efforts of seven U.S. wind projects, including three in California, which hoped to make a 2010 year-end deadline to apply for hundreds of millions of dollars in stimulus funds.

LOCATIONAL CONSIDERATIONS

High velocity winds can be caused by various influences, and, as such, wind power generating projects can be found in a variety of locations. To date, in America, all projects have been situated on land; however, it is expected that there will be a dramatic increase in offshore wind farms, particularly in light of the BLM's suspension of permits. Though offshore projects are subject to higher development cost uncertainty, sea-based wind farms are more efficient and can potentially deliver electricity more cheaply if placed off the coast of a large city. In early 2010, there were 12 offshore wind projects in some state of relatively advanced approval.

The leading wind energy producer in America is Texas, which generates 26.5% of the nation's wind energy. Iowa is second at 10.3%, followed by California with 7.9%. Regionally, the southeast and New England lag far behind the other U.S. regions, all of which have at least one state responsible for 3.0% or more of the nation's production. Within the most productive areas of the nation, electricity is generated in such environments as mountain ridges that benefit from topographic acceleration, wind corridors that funnel air into valleys where temperature changes occur, or off of large bodies of water such as the Great Lakes.

WIND ENERGY PRODUCTION POTENTIAL OF THE SUBJECT

In order to analyze the wind energy production potential of the subject, we evaluated NREL online resources as well as V-Bar, LLC data from Webb Tract and Bouldin Island test stations. Based on this available data, it appears that Webb Tract and Bouldin Island have what the NREL classifies as "marginal" (Bouldin Island) to "fair" (Webb Tract) wind power density (speeds of about 12.5 to 14.3 mph, 5.6 to 6.4 meters / second, and 14.3 to 15.7 mph, or 6.4 to 7.0 meters / second, respectively) at about 50 to 80 meters above ground. The remaining Project Islands are unrated by NREL (i.e., below the marginal level). Due to the marginal to fair nature of the subject's wind resources on only two of the Project Islands, and the fact that a wind project would likely face the same cost hurdles as any potential previously discussed solar project, it is unlikely that a wind power development would provide the highest return to the property.

CARBON TRADING ANALYSIS

To date, the United States does not have a national carbon trading ("cap and trade") market in the fashion of the EU's Emission Trading Scheme (ETS). However, America appears headed quickly in this direction.

The American Clean Energy and Security Act (ACES), which would create a cap and trade program for greenhouse gases, has already been approved by the House of Representatives. If this Act is passed by Congress, the carbon trading market in America would likely make a huge and immediate splash on the national and world commodity exchange stage.

If passed, ACES will issue a set number of contracts that can be purchased by CO₂ emitters. The initial buyers will then be free to buy, sell, and otherwise trade these contracts.

As a potential precursor to ACES being passed by Congress, the California Air Resources Board (ARB) is expected to sign off on rules to implement a state cap and trade system before the close of 2010. If approved, this carbon trading system will go into effect in 2012. It is part of Assembly Bill (AB) 32, which was passed as the Global Warming Solutions Act of 2006. AB 32 intends to reduce greenhouse gas emissions back to 1990 levels by 2020 and to 80% of 1990's level by 2050. Part of AB 32's strategy is the creation of a cap and trade system intended to limit pollution by California's 500 largest emitters. The state is working closely with six other western states through the Western Climate Initiative to achieve a more effective regional reduction in greenhouse gas emissions.

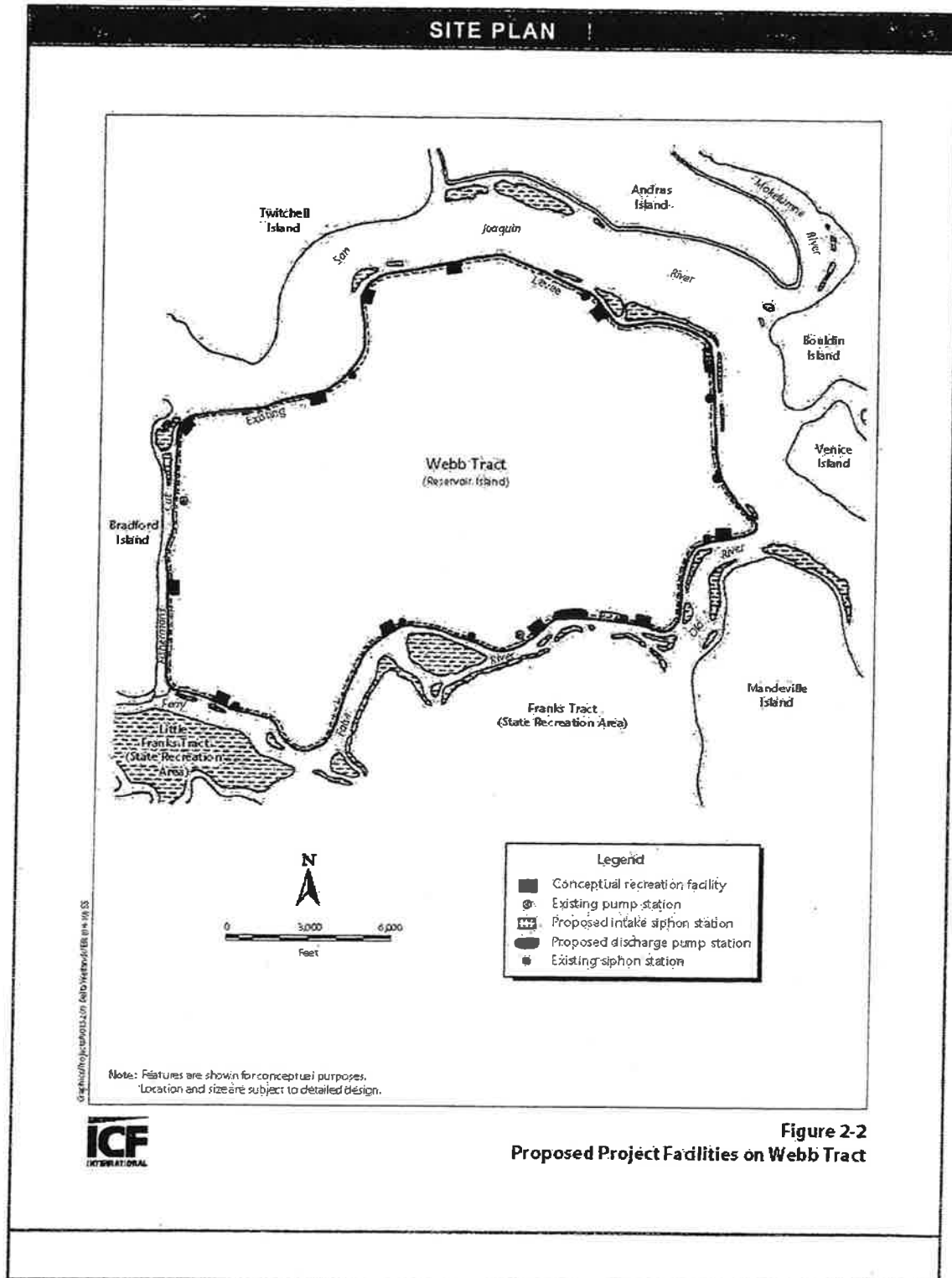
In a 2008 presentation to Congress, New Carbon Finance research economists predicted that, with a domestic carbon trading system in place, by 2020, the U.S. would have a \$1 trillion carbon trading market, which would be twice as large as the EU ETS. Additionally, this group predicted that a price of \$40/ton could come as soon as 2015, and would result in significantly higher resource costs – a 20% increase in electricity, 12% for gasoline, and 10% for natural gas.

CONCLUSION

Currently, the direct implications of the seemingly inevitable creation of a cap and trade system – either in California or nationally – are unclear. As it is unlikely that the subject is one of the 500 largest polluters in the state, there are no immediate impacts foreseen based on the California system. However, once put in place, it is likely that a carbon trading market would quickly evolve to influence much beyond the simple act of transferring contracts. While speculative at this point, there could be trickle-down effects in other finite resource market (water, sensitive habitat, etc.).

Farming Revenue - Actual for 2009 (Accrual Basis - Provided by Owner)

	Farmable Acres =	4,933	4,839	4,124	2,661	16,557
	Bouldin	Bacon	Webb	Holland	TOTAL	
Farming Revenue Sources						
Wegis & Young (fixed land lease)	630,098					630,098
D & L - Wheat						0
D & L - Alfalfa - (crop share agreement)		264,015				264,015
D & L - Sunflower						0
D & L - Tomatoes		57,000				57,000
D & L - Corn		706,120				706,120
D & L - House		4,151				4,151
Tenente (fixed land lease - grazing)				121,162		121,162
Metropolitan Water District (MWD - L.A.)			593,320			593,320
Foothill Oil & Gas	28,924					28,924
Stream Energy Oil & Gas	21,840					21,840
Green Oil & Gas			4,710			4,710
Tri-Valley Oil & Gas Company			8,621			8,621
Cingular Wireless (cell site)	11,592					11,592
USDA						0
Miscellaneous	29,057			83,850		112,907
Total Farming Revenue =	721,511	1,031,286	606,651	205,012		2,564,460
	\$146.26	\$213.12	\$147.10	\$77.04		\$154.89
Farming Expenses						
Reclamation Assessments	360,000	305,418	402,584	128,356		1,196,358
Property Taxes	158,482	202,853	108,539	63,213		533,087
Fallowing costs (land maint only)	0	0	259,688	0		259,688
Other farming costs	0	0	0	0		0
Total Farming Costs =	518,482	508,271	770,811	191,569		1,989,133
NET FARMING INCOME =	203,029	523,015	(164,160)	13,443		575,327



Structural Improvements: As mentioned above, the property is improved with many structures in conjunction with its agricultural use. The improvements vary widely in terms of age, quality, and condition. The owner provided an inventory of the improvements that had been conducted for insurance reasons (see Addenda).

These structures consist of typical structures including sheds, barns, shop buildings, and single- and multi-family residences (including mobile homes, which are considered personal property).

Overall, as discussed in the reconciliation of the Land Valuation (Project Islands) section, the improvements do not contribute significantly to the property's value. Generally, many of the improvements are highly depreciated and any short-term income they may be able to generate functions only to offset future repair and demolition costs.

Agricultural Production: The owner provided a summary of the subject's 2009 farming revenue, which is included at the end of this section, followed by a 2008 crop production report. It is our understanding that all agricultural operations are undertaken by tenants.

In 2009, due to falling costs, Webb Tract lost money. This island also has the highest reclamation costs even though two of the three other islands are larger. The Holland Tract, which was grazed, produced a net income of less than \$14,000 in 2009. Based on this information, it appears that, unless the current uses of these two islands are changed, agriculture on these properties is at best a break-even venture.

Bouldin and Bacon Islands, however, appear to be much more profitable, likely due to the tenants' large crops of corn. These two islands appear to be much more financially feasible from an agricultural perspective; however, the lease revenues of Bacon Island are well behind those of Bouldin, despite nearly identical farmed acreages.

Land Use Restrictions: We were not given a title report to review. We do not know of any easements, encroachments, or restrictions that would adversely affect the site's use. However, we recommend a title search to determine whether any adverse conditions exist.

Water Rights: The subject's water rights are summarized in the Addenda. The property has 1922 priority appropriative water rights with secondary riparian rights for direct diversion. According to the information included in the Addenda, the subject has 244.91 cubic feet per second (cfs) of appropriative rights, or about 177,307 AF. The volume attributable to the riparian rights is undefined.

According to project documentation, the total storage capacity of the Reservoir Islands is projected to be 215,000 AF, with Webb Tract having a capacity of 100,000 AF and Bacon Tract being able to store 115,000 AF. The client has indicated that, once the subject project is complete and water can physically be exported off-site, the average annual export amount is expected to be 150,000 AF/year.

HIGHEST AND BEST USE

HIGHEST AND BEST USE DEFINITION

The Dictionary of Real Estate Appraisal, Fifth Edition (2010), a publication of the Appraisal Institute, defines the highest and best use as:

The most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

To determine the highest and best use we typically evaluate the subject site under two scenarios: as vacant land and as presently improved. In both cases, the property's highest and best use must meet the four criteria described above. Since this property is land only, evaluating it as presently improved is not applicable.

HIGHEST AND BEST USE OF PROPERTY AS VACANT

LEGALLY PERMISSIBLE

The zoning regulations in effect at the time of the appraisal determine the legal permissibility of a potential use of the subject site. As described in the Zoning section, the subject site is zoned AG-40, AG-80, A-2, A-3, A-4, MP by San Joaquin, Contra Costa, and Solano Counties. Permitted uses within these zoning districts include agricultural, single-family residential, and marsh preservation (MP zone only). Use permits are required for water storage in San Joaquin County, and it appears that a variance or zone change is required for such a use in Contra Costa County. We are not aware of any further legal restrictions that limit the potential uses of the subject. In addition, significant rezoning of the property (i.e., to uses such as high-density residential or intensive retail, etc.) is not likely due to the character of the area.

PHYSICALLY POSSIBLE

The physical possibility of a use is dictated by the size, shape, topography, availability of utilities, and any other physical aspects of the site. The subject contains 20,171.16 acres in Project Islands and 243.00 acres of Mitigation Land. It is irregularly shaped and generally level, below sea level. It has good frontage, fair to average to good access, and average visibility. The overall utility of the site is considered to be average. Typical utilities are available and the property has adequate water rights. Overall, the site is considered adequate to accommodate most permitted development possibilities.

FINANCIALLY FEASIBLE AND MAXIMALLY PRODUCTIVE

In order to be seriously considered, a use must have the potential to provide a sufficient return to attract investment capital over alternative forms of investment. A positive net income or acceptable rate of return would indicate that a use is financially feasible. Financially feasible uses are those uses that can generate a profit over and above the cost of acquiring the site, and constructing the improvements. Of the uses that are permitted, possible, and financially feasible, the one that will result in the maximum value for the property is considered the highest and best use.

CONCLUSION

We considered the legal issues related to zoning and legal restrictions. We also analyzed the physical characteristics of the site to determine what legal uses would be possible, and considered the financial feasibility of these uses to determine the use that is maximally productive.

There have been discussions about using areas of the subject for renewable energy production (solar and wind energy); however, these have been preliminary in nature and we would need much more information to accurately assess the feasibility of the subject's energy generating potential. This is discussed in depth in the Renewable Energy Analysis section of the report.

It appears that two of the subject islands have marginal to fair wind power densities. The entire subject property is located in the Pacific Flyway, and the proposed Project will incorporate sensitive waterfowl habitat areas in order to mitigate the creation of the Reservoir Islands. Due to the extensive level of environmental impact analysis that have been conducted for the proposed subject Project to date, we think it is likely that wind turbines could be perceived as being at odds with its habitat use. At very least, we would expect that additional or amended environmental impact studies would be required if a wind power component were to be added to the proposed Project. As noted in the Renewable Energy Analysis section of the report, the permitting of three California wind projects on public lands was indefinitely suspended in 2010 due to concerns that rotors pose a threat to endangered birds, so wind projects have been subject to greater scrutiny recently. Conversely, though, it is noted that there are existing wind developments around the Delta area. The bottom line is that it is impossible to say how a wind power development would be received without the owner actually exploring the legal implications of such a use, specifically as it pertains to the subject Project.

With regard to solar development, it is possible that the Delta's typical soil subsidence issues would make such a use difficult.

However, most important in considering both solar and wind farm uses, is that the subject comprises *islands* with locational characteristics that may make electrical transmission prohibitively expensive. Based on the preceding discussion, it appears unlikely at this time that a utility-scale renewable energy development would generate the highest return for the subject property. These potential uses are considered preliminary and speculative at the present time, and much more information is necessary to truly assess the feasibility of such developments.

A buyer purchasing the subject today would most likely use it for agriculture (either leased or owner-farmed) or would continue developing the Delta Wetlands Project. Based on our analysis, agriculture produces what is considered a marginal return to the property, even though it varies greatly by island and there could be some upside in lease renegotiation or other strategies. Although there is a great deal of work to be completed in order for the proposed Project to be operational, we conducted several preliminary analyses that showed the greatest return to property results from undertaking the Project as described and proposed.

Based on the above, and considering the subject site's physical characteristics and location, as well as the state of the local market, it is our opinion that the Highest and Best Use of the subject site as vacant is continued development of the proposed project for water storage and distribution with interim agricultural use (reservoir islands) and long-term agriculture (habitat islands) with accompanying habitat preservation.

HIGHEST AND BEST USE OF PROPERTY AS IMPROVED

The Dictionary of Real Estate Appraisal defines highest and best use of the property as improved as:

The use that should be made of a property as it exists. An existing improvement should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.

As discussed in our analysis, while there are some structural improvements on the property, they contribute no significant value. As such, the subject has been valued as land only, and the Highest and Best Use of the subject property as improved is not applicable.